

# Social Science

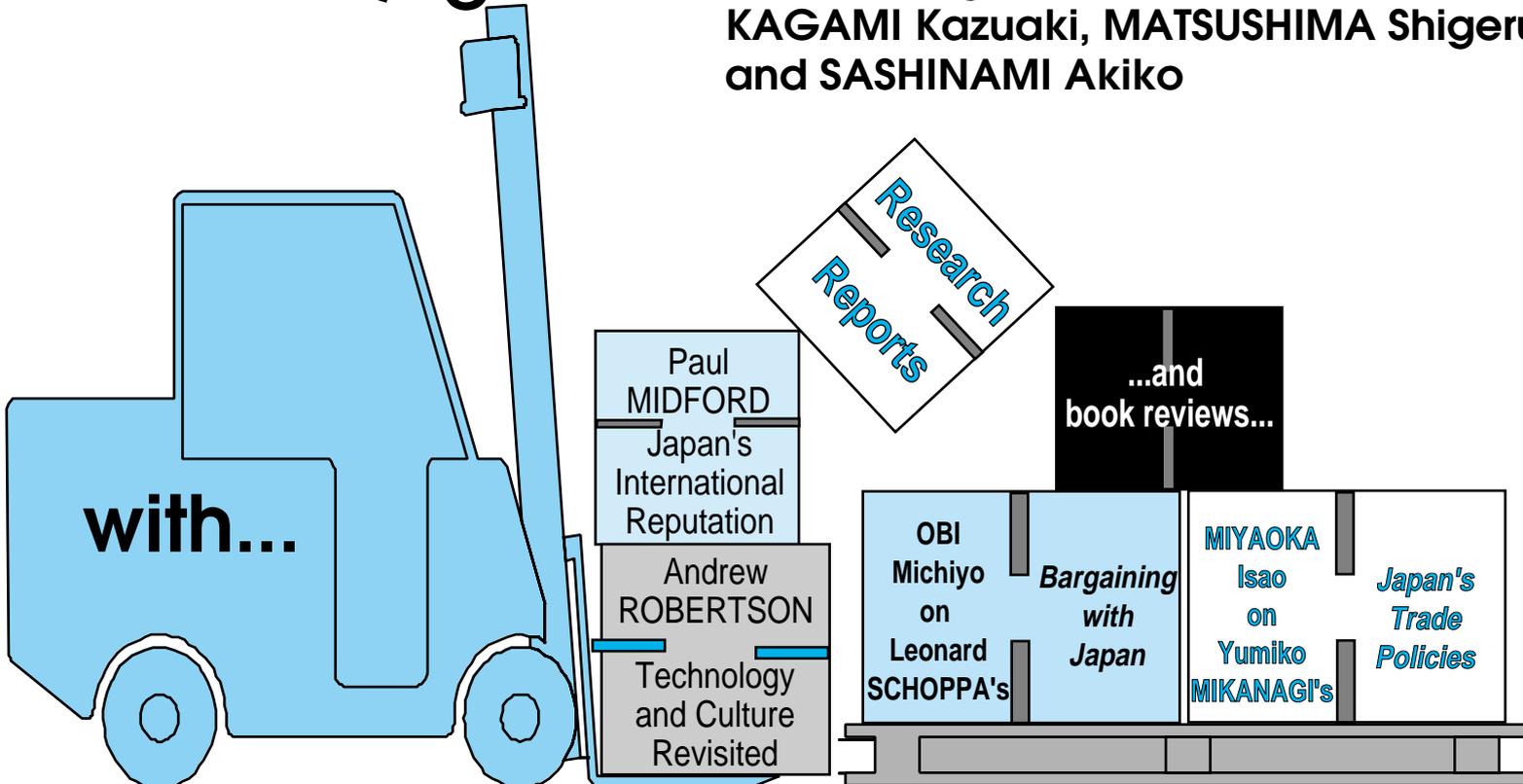
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## Japan's Distribution System

Featuring articles by: KIKKAWA Takeo,  
ITÔ Motoshige, TAKAOKA Mika,  
KAGAMI Kazuaki, MATSUSHIMA Shigeru,  
and SASHINAMI Akiko



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**All inquiries to:**

*Social Science Japan*  
Institute of Social Science  
University of Tokyo  
Hongo 7-3-1, Bunkyo-ku  
Tokyo 113 JAPAN  
Tel 81-[0]3-3812-2111 x4931  
Fax 81-[0]3-3816-6864  
Electronic mail:  
[ssjinfo@iss.u-tokyo.ac.jp](mailto:ssjinfo@iss.u-tokyo.ac.jp)

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## Japan's Distribution System

**THE** controversial topic of Japan's distribution system (*ryûtsû*) is difficult to study in part because it is shaped by institutions and social practices that elude singular perspectives from law, policy studies, or economics. In this issue of *Social Science Japan*, we bring together scholars from a variety of disciplines to examine the Japanese distribution system, in order to create a fuller picture of the system's history, its strong and weak points, and its likely trajectory in the future. The special section also details some of the topics for future empirical inquiry. And in keeping with our central mission of providing information about information we include a special list of related sources in English and Japanese, compiled by Professor KIKKAWA Takeo.

In addition to our usual assortment of research reports and book reviews, we also include a special bibliography, compiled by Dr. Verena BLECHINGER of the German Institute for Japanese Studies, of recent German-language social science works on Japan. We hope in future issues to be able to offer similar lists of sources in other languages, serving to bring in closer contact the global community of Japan scholars.

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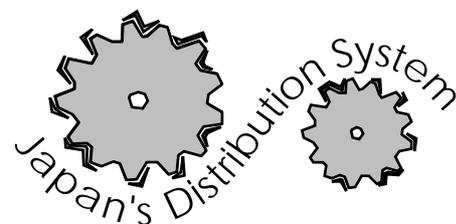
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# The Business of History:

## Analyzing the Development of Japan's Postwar Distribution System



### KIKKAWA Takeo

JAPAN'S postwar distribution system has recently become a focus of international scholarly attention.<sup>1</sup> In this short piece, I introduce some of the key research in the field, and also suggest some specific research topics in which we need to increase our empirical knowledge and analyses. The recent renewed interest in Japan's distribution system, both in Japan and abroad, was inspired by the industry's having become an important focus of debate in the Japan-US Structural Impediments Initiative (SII) Talks in 1989-1990. The final report of the SII Talks listed five measures to be implemented by Japan for improving its distribution system: (1) improvements of import-related infrastructure; (2) more expeditious import clearance procedures; (3) relaxing of distribution-related regulations, including those specified by the Large-Scale Retail Store Law; (4) improvement of trade practices to make the Japanese market more open; and (5) the continuous expansion of imports. Among these five measures, excluding the topics related purely to importing, we focus here on issues (3) and (4) for clues on further research on Japan's distribution system. Underlying the need for relaxing regulations concerning large-scale retail stores mentioned in item 3 is the distribution structure peculiar to Japan, characterized by "an abundance of small, family-run retail stores, and the multilayered nature of the wholesale business" (Nihon Seisansei Honbu 1993: 52). On the other hand, item 4 addressed a number of behavior patterns characteristic of "Japanese trade practices," such as the resale-price maintenance practice, non-price vertical restraints by suppliers, rebates, return of unsold goods, the dispatching of salespersons, and the coercive collection of contributions from retailers (MITI 1990, p. 78). Put straightforwardly, the issues concerning the Japanese distribution system that came up in the SII talks can be divided broadly into two categories: those related to the distribution structure, and those pertaining to trade practices. In the next sections of this paper, I introduce some of the key works on these categories and then point to directions for future research.

### Distribution Structure

A number of researchers, both Japanese and non-Japanese, have explored the determining factors behind the Japanese distribution structure, in which small-sized stores take up an excessively large share in the total number of retail stores, if not in the total size of the retail business, while wholesaling activities go through multiple stages. Included among the factors pointed out in the recent English-language literature as explanations for the abundance of small-sized retail stores are: (1) consumers' practice of purchasing goods in small lots and at frequent intervals (Tsurumi 1982; Flath 1990); (2) the fact that the majority of small-sized retail stores are run as family businesses (Batzer and Laumer 1989; Patrick and Rohlen 1987); (3) preferential tax treatments granted to these retail stores (Patrick and Rohlen 1987); (4) the existence of legal restraints on large-scale retail stores (Kirby



**KIKKAWA Takeo is a Professor of Japanese Business and Economic History at the Institute of Social Science, University of Tokyo.**

Institute of Social Science  
University of Tokyo  
Hongo 7-3-1, Bunkyo-ku  
Tokyo 113  
JAPAN  
kikkawa@iss.u-tokyo.ac.jp



1983; McCraw and O'Brien 1986; Kuribayashi 1991); and 5) the role performed by these stores as a meeting place for neighborhood residents (Bestor 1987). Besides these factors, some researchers, such as Shimaguchi (1993), point to the cocktail effect of composite factors at work behind the abundance of small retail stores. Moreover, some of these researchers cite the excessive density of small-sized retail stores itself as an explaining factor for the multilayered wholesale structure (Tsurumi 1982; Nariu and Flath 1993).

On the other hand, recent studies on the Japanese distribution structure published in Japanese are far too numerous to summarize briefly. One particularly outstanding work is Tamura (1986), which provides an overview of the distribution structure as a whole, and it is widely accepted as having set the standard for inquiries into Japan's distribution system from the perspective of commercial science. This work provides a more systematic and comprehensive study of the distribution structure than do the English-language works cited above.

Relatedly, two Japanese-language (Maruyama 1992; Nariu 1994) works appearing after the SII offer excellent applied microeconomic analyses of the Japanese distribution structure.

### **Japanese Trade Practices**

Many other scholars have delved into the historical and social backgrounds of Japanese trade practices and have suggested how these practices are rational for the parties concerned. Among these studies are Ejiri (1979), Pelligrini (1986), Tsurumi (1982), Dodwell Marketing Consultants (1991), Maruyama (1988, 1992), Flath and Nariu (1989), Kurasawa (1991), Itô, Matsushima, and Yanagawa (1991), Miwa (1991), Aruga (1993), Suzuki (1993), and Nariu (1994). Much as they have done in analyzing the Japanese distribution structure noted above, applied microeconomists are now turning to efforts to demonstrate that these practices are economically rational.

### **Directions for Future Research**

Although it is fairly easy to bracket existing studies on Japan's distribution system into those on distribution structure and those on trade practices, in suggesting themes for further empirical research, I hope that scholars will begin to tie these two strands together.

In order to enrich studies on distribution structure, it is essential that we examine the changes over time in retail stores in Japan, broken down by size, the types of operations, and embed the analysis within a historical perspective. One important concrete research undertaking would be the effort to shed light on the "1985 shock" (the rapid decline in the number of

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small-sized retailers dealing in foodstuffs and beverages, which began in 1985), and to focus on the two developments closely related to the shock: the systematization of grocery supermarkets and the rise of convenience stores. Given the fact that some pioneering studies have begun to examine the convenience store aspect (e.g., Kawabe 1994; Yahagi 1994), it will be especially important to study grocery supermarkets in close reference to the strategies pursued by Kansai Supermarket and by the Summit Store.<sup>2</sup>

Studies of Japanese trade practices — including the return of unsold goods, dispatched salespersons, payment of rebates, resale price maintenance, and non-price vertical restraints — would be further improved with increased research on resources and relationships among parties in the transactions system. For example, it is essential to pay attention to managerial resources possessed by various parties to transactions, and to relationships among these resources, clarifying how the interactions among different parties to transactions with their varying managerial resource endowments led to the emergence of various trade practices. The examination of relationships between department stores and suppliers in the postwar economic rehabilitation period — paying particular attention to the return of unsold goods, consignment purchases, and dispatched salespersons — will be one helpful contribution.<sup>3</sup> Another would be research on the relationships between supermarkets (including general merchandise stores and grocery supermarkets) and supplier-manufacturers during the high-speed growth era, thereby elucidating the evolution of the rebate system. Finally, a study of the relationships between specialty stores and supplier-manufacturers after the 1953 revision of the Anti-Monopoly Law, probing into the circumstances that gave rise to the resale price maintenance system and non-price vertical restraints. It will be especially important to take into account the strategic behavior of parties to these transactions.

In recent discussions of the Japanese distribution system, explanations relying on applied microeconomic theory are gaining influence. One representative work (Maruyama 1994) from this school admits that “the book has shortcomings,” one being an unsatisfactory historical analysis and another being its failure to probe deeply into the managerial strategies pursued by firms active in the distribution industry (pp. 282-283). Indeed, a historical perspective combined with genuine attention to strategic actions of the actors involved constitutes the core of a new, alternative analytical perspective that is indispensable for gaining a fuller understanding of the Japanese system. More simply, we need an approach that uses methods from business history to explain the development of Japan’s postwar distribution.<sup>4</sup>



## Notes

- <sup>1</sup> This article is a short edited version of Kikkawa and Takaoka (1998). Please see the forthcoming article in *Social Science Japan Journal* Volume 1, Issue 1, which takes up these themes in greater depth.
- <sup>2</sup> For more on this theme, see the recent work by Kikkawa and Takaoka (1997).
- <sup>3</sup> See particularly Takaoka (1997) and her contribution to this issue.
- <sup>4</sup> Kikkawa and Takaoka (1998) will take up this issue in more depth.

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# The Future of the Japanese Distribution System

## ITÔ Motoshige

JAPAN'S distribution system is presently going through a period of great change, and by looking at these current changes in distribution we may get a better sense of what the future distribution system in Japan will look like. In the following essay, I take a speculative look at the future of the distribution system in Japan by examining the current changes in its structure, focusing in particular on four features: location, industrial conditions, intermediate distribution, and technological improvements.

### Location

With motorization and the shift of populations to metropolitan areas and large cities, the structure of Japan's cities changed dramatically. Regional population concentration helped to establish major commercial bases in major cities. More recently, the widespread use of automobiles has been the prime mover behind the hollowing-out of residential areas in the cities and the growth of suburbs. This too has affected commerce, as places of commercial activity have spread out.

This geographical change in population and commerce has been the main force behind changes in the structure of retailing. An increasing number of large retail firms are setting up shop outside of the major cities, which is further contributing to the already obvious downward trend among the *shōtengae* (shopping streets) in these areas. In addition to the increased competition, many of these shops are true "Mom and Pop" outfits, with elderly owners whose descendants are more likely to shut the stores than to keep them running. The appearance of the large discount stores is thus one factor speeding along the already obvious decline of the *shōtengae*.

One of the major features of Japan's distribution and commerce that differs from, say, that in the US — where migration from the cities has proceeded further — has been the focus on train stations and terminals as shopping districts. As this kind of migration intensifies in Japan, however, here too we expect to see a shift in where shopping areas are located.

Among the most visible changes in Japan's distribution system in the 1990s has perhaps been the regulatory relaxation in the Large Stores Law. In part because of the legal space opened by the regulatory changes, even in smaller cities one can find large-scale shopping centers, roadside discount stores, large supermarkets, and other commercial shops that clearly differ from Japan's pre-existing collections of smaller shops.

Change in distribution of goods and services is evident in the cities as well. While the construction of department stores at the big terminals is continuing, the more striking trend has been the creation of a variety of new shops contiguous with the terminals and department stores, so that these are becoming urban shopping centers. Tokyo and Osaka provide what are probably the best examples of this trend, and these new shopping centers are generating intense competition among the stores for customers.

Another noticeable development in the cities has been the rapid growth of



**ITÔ Motoshige is a Professor in the Faculty of Economics at the University of Tokyo.**

Faculty of Economics  
University of Tokyo  
Hongo 7-3-1, Bunkyo-ku  
Tokyo 113  
Japan



convenience stores. The pre-existing small shops, with individual owners, have in many cases entered into franchise agreements with national chains, and have become standardized convenience stores. Armed with central stocks of goods and high-speed information systems that alert suppliers to the store's inventory needs, these have become an efficient way to supply goods to urban areas. Urban consumers have turned increasingly to convenience stores as a speedy way to shop.

### **Commercial Conditions**

With the transformation of Japan's distribution structure, we can also see a number of important new conditions for industry. What characterized Japan's distribution structure most until recently was the large number of small stores, each specializing in certain kinds of products, like alcohol, medicine, stationery, sundries, vegetables, fish, meat, etc. More recently, however, these smaller, more specialized stores are being supplanted by larger retailers bringing together a broad variety of products, all under one roof.

For example, an average convenience store holds a wide variety of items, and it provides the considerable benefits of being informal and handy, and supplying 24-hour service. Additionally, discount stores not only undercut the prices of traditional specialty retailers, but also serve as "category killers" by providing a wide variety of different kinds of items. Mail-order retailers have also entered the market. The entry of American and European retailers into Japanese markets has also internationalized Japan's retail markets, further contributing to the diversification of kinds of services available.

The old style of retailing was convenient for producers. But the transformation in retailing now caters to the needs of today's consumers. Depending on one's tastes, one can now shop at supermarkets, discount stores, specialty shops, department stores, or convenience stores, and the shops themselves are learning ways to distinguish themselves from competitors, using factors like prices, assortments of goods, and marketing strategies.

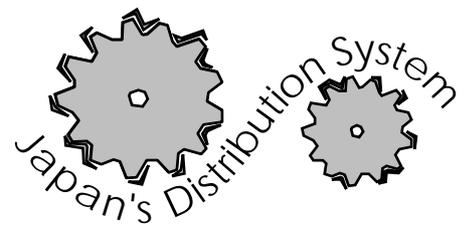
### **Intermediate Distribution**

The transformation in retailing is also recasting the relationships between manufacturers, wholesalers, and retailers. Under the segmented retailing system that prevailed until recently, suppliers held the main advantages in deciding on distribution. In order to privilege their own goods, suppliers would incorporate wholesalers into their *keiretsu* networks. To that end, they used such tools as rebates and officially quoted prices.

As the retail system changes, however, the alliance between suppliers and wholesalers has become a genuine obstacle to retailers. The retailers have thus turned towards ways of making sure that they set their own prices and can facilitate distributional links that work well for their own systems of management.

This means that the retailers are in essence forcing a transformation in the





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upper links of the distribution chain. Large supermarkets and convenience stores are trying to decide for themselves what prices will be and what kinds of products will be offered. In so doing, they are undermining the suppliers' ability to control prices, and forcing the reorganization of wholesalers and the rationalization of distribution and supply.

The "category killing" aspect of all of this has been similar to what has been observed in the US. In particular, suppliers are learning how to work outside of wholesalers (or to turn retailers into wholesalers), where the chain from supply to consumption is much shorter than before. This defeats the officially quoted prices system, and will likely provide a new arena for open pricing.

### **Technological Improvements**

It is impossible to imagine any of these changes without the technological improvements that made them possible. In particular, new capabilities for storing and transmitting information, as well as their effects on costs, are providing impetus to changes in the distribution industry.

Just as automation and mechanization have dramatically affected manufacturing industries, the distribution industry has been transformed by the turn to chain operations. With the standardization of store management systems and the goods and services provided in each shop, distributors have become able to handle their operations more efficiently, at lower cost. Chain operations have similarly been affected. For example, convenience stores now frequently use part-timers and temporary workers for their labor, which is possible because of the standardization of labor techniques that facilitates the construction of "workers' manuals," detailing their tasks. And with sales, POS systems provide realtime recordings of sales, and EOS systems electronically order new goods for each shop, so convenience stores can maintain inventories without being overstocked or worrying about wasted goods.

These information systems also figure in the work of discount stores, major supermarkets, and "category killer" stores. Recently, even the department stores that had traditionally eschewed these kinds of systems have begun to use them more effectively.

One other major innovation has been the broader use of credit cards, which further facilitates the collection and use of commercial information. Stores can now record who bought what, when and how much of it, and can use this information to provide special discounts, more sophisticated marketing, and other kinds of novel sales techniques. In the future, the use of "electronic money" will further enable stores to target consumers for special products and deals.

The frontier of all of this, of course, is the Internet. Although sales through the Internet still represent only a very small portion of overall transactions, the spread of electronic commerce will almost certainly have a major effect on how retailers themselves do business.



# Consignment Purchases and Dispatched Salespersons in Department Stores:

## A Case Study of Japanese Trade Practices

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TAKAOKA Mika

THE “dispatched salesperson” and “consignment purchase” systems are key features of distribution to Japan’s department stores, and in this article I focus on them as a way of illuminating some of the important elements of Japan’s trade practices. Japan’s distribution system has been hotly debated, particularly abroad. In addition to offering a historical analysis of the postwar formation of trade practices in Japan, I aim below at providing a more meaningful story by putting the arguments in terms suitable for international comparison. A more complete study can be found in my article “Sengo fukkôki no nihon no hyakkaten to itaku shiire — nihonteki torihiki kankô no keisei katei” (Consignment Purchases and Department Stores During the Postwar Reconstruction of Japan: The Formation of Japanese-Style Trade Practices), in *Keieishigaku* 32:1 (1997).

A number of features of Japan’s postwar economy provided a favorable business environment for Japan’s department stores. Among the most important was the “westernization” of lifestyle (more bluntly, the wider acceptance of western-style clothes and ready-made clothing. In order to seize these opportunities, department stores had to maintain and use management resources, including things like location and reputation, effectively. In other words, stores not only had to rebuild, renovate, and newly construct high quality facilities in urban areas, but also to make sure that the service and the merchandise were good enough to generate a favorable image. The personnel and financial resources available during the reconstruction period, however, were insufficient to the task of improving either the reputation or the stores themselves. It was particularly difficult to find clerks capable of dealing with the newly popular western products. Various policy constraints further bedeviled stores as they sought funds for renovating or rebuilding their stores in convenient locations. Ultimately, department stores did manage to outcompete other types of retail stores by carrying better assortments of clothing, thanks to the fact that they were able to develop vertical relations with suppliers, which helped to make up for their shortages in human and financial resources.

The “return system” and “dispatched salesperson” systems represent two of the compensating mechanisms that obtained in the vertical enterprise relations for Japan’s department stores in the postwar period. Both had existed in part before the war, but the constraints on human and financial resources forced both to become even more widespread in postwar Japanese retailing, largely in order to maintain and improve store reputations. Some prescribed rules in the prewar period had essentially meant that returns were “systematized,” but the lack of such rules after the war led to utter chaos caused by *ad hoc* returns. Troubled suppliers started to call for some sort of public guide as to how and when returns could take place; in 1954, the government complied with new regulations regarding returned goods. One of the results of stricter regulations on the return of goods was the transition from buy-up purchases with *ad hoc* returns to the use of consignment

purchases. For department stores attempting to cope with limits on human and financial resources, both the *ad hoc* returns and consignment purchases had more or less the same effect. Even so, the consignment purchase system, as a way of managing resource constraints under the new regulations, spread rapidly among Japanese department stores.

For suppliers, consignment purchases brought a larger risk burden than did the previous purchase system. The improving reputation and economic position of department stores, however, was becoming an important asset for business, and they were generally willing to make this concession.

Seen somewhat differently, consignment purchases actually represented something useful to the suppliers. Because of the corrosive effects on their business of the “unsystematic returns” in the early postwar years, most suppliers naturally felt that the need to create good, stable rules governing relations with department stores was quite pressing. The shift from buy-up purchases and *ad hoc* returns to consignment purchases was therefore marginally more attractive.

With the passage of time, the development of more fixed relations between suppliers and retailers through the consignment purchase system, had far-reaching implications for the overall system. That is, the consignment system ultimately led to a reduction in both the high profit margins and the merchandising functions of the department stores, and shifted the balance in economic power and benefits from the retailers to the suppliers. This occurred for a number of reasons, but one resulted from the suppliers’ efforts to deal with the risks inherent in the consignment purchase system; many began to use dispatched salespersons, sending them to handle sales at department stores. Because these people had most of the day-to-day contact with customers, the suppliers began to have a better grasp of trends in consumption than did the retailers. In developing and courting brand recognition and loyalty, many of the suppliers managed to get the crucial issue of reputation to be linked more to their brands than to the department stores, thus ensuring that this critical resource belonged increasingly to them. This is ironic. In order for department stores to sustain their most valuable managerial resource, their reputation, they have had to rely on human resources from the suppliers, thus transferring much of that reputation upstream. This has been an important point for the postwar department stores, and this trend has been quietly but significantly gnawing away at them for years.

As is already clear from the case study above, research on some of the quirkiest aspects of Japanese trade practices is strengthened by an approach that deals with the process of systemic formation. Of particular importance here are the management resources and interdependent relations between actors. The system of transactions is a unitary one, ultimately formed by the interdependent relationships between the firms as elements themselves and



**TAKAOKA Mika is a PhD Candidate in the Faculty of Economics, University of Tokyo.**

Faculty of Economics  
University of Tokyo  
Hongo 7-3-1, Bunkyo-ku  
Tokyo 113  
JAPAN



the attributes of the firms. The mechanisms within the system tend toward the generation of optimal means for coordinating supply and demand within the economy as whole. But in examining the development of these optimal systems, we need to think about how actors involved in these transactions, particularly during periods of rapid change, evaluated the costs and benefits accruing to certain kinds of behavior. Consignment purchases and dispatched salespersons have become two of the more important and noticeable features of Japan's retail transactions system, and their current shape owes much to the way that suppliers and department stores worked with the government to coordinate profit margins and risk-sharing in the early postwar years.



## Research Resource

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# A Theoretical Overview of Rebate Systems in Japan

**KAGAMI, Kazuaki**

## Introduction

JAPAN'S marketing structure has, for some decades, broadly used a price management scheme called a "rebate system." Rebates represent a part, perhaps even most, of drawback transfers paid from an upstream firm to a downstream firm. We therefore refer generically to trading practices excuted through such payments as a rebate system. Moreover, the system sometimes includes transfers associated with various discounts as well. These rebates are typically classified in three categories, according to their purposes and/or effects: "reward rebates" (*hoshôteki ribêto*), "sales promotion rebates" (*hambai sokushin ribêto*), and "restricting rebates" (*tôseiteki ribêto*). A manufacturer renders reward rebates for services provided by its channel members to stimulate consumers' demands for its products. The purpose of sales promotion rebates is to induce buyers to deal with and/or to increase purchases of the manufacturer's goods. In contrast, restricting rebates are given in response to contributions by the channel member to a specific channel policy, such as resale-price maintenance. In practice, however, these are ideal types, and any one rebate is likely to have several purposes and effects, making strict classification difficult. Furthermore, rebate systems are sometimes combined with other marketing practices to organize an overarching system. The theoretical examination of rebate systems below thus focuses on the roles of rebates, but does not consider those transfers that adjust unit prices or those that occur to divide benefits from the subadditivity of dealing costs.

## Rebates as a Means of Coordination

Consider first a channel consisting of momopolistic members whose leader is a manufacturer. In the past this was the typical form of distribution channels for most consumer goods in Japan. When each firm maximizes its profits independently, the entire channel's profits are often less than what they would be with joint profits maximization. This is common knowledge. Since no one takes account of interdependencies among their actions and/or since cheating one's partner increases one's profits, joint profits (and the consumer's surplus) might drop under the weight of individually self-interested activities. Thus, the leader tries to persuade its channel-members to take actions that will lead to overall channel profit maximization. This is the problem of agency.<sup>1</sup>

The most primitive way to understand a rebate practice is to think of it as a means of coordination: namely, it arises to share costs for various services at any level of a distribution channel in order to restore efficiency. Several kinds of reward rebates have been used to internalize some of the externalities in the channel. Thus some rebates can be thought of as subsidy transfers in the agency relationships. As a rule, however, services supplied by channel



**KAGAMI Kazuaki is a PhD candidate in the Faculty of Economics, University of Tokyo.**

Faculty of Economics  
University of Tokyo  
Hongo 7-3-1  
Bunkyo-ku, Tokyo 113  
JAPAN



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members are manifold and complicated, so it is difficult to construct rebate systems based only on service inputs. Thus, it is reasonable for manufacturers to design a rebate system depending on the amount of commodities purchased. This type of rebates is called "a quantity rebate."

### Rebates for Price Discrimination

Some sales promotion rebates — for example, "targeted rebates" (*mokuhyô tassei ribêto*) — are designed for price discrimination related to quantity discount. In surveying the field, Dolan (1987) finds that economists, in contrast to the literature on marketing which regards the quantity discount as a means of coordination, see it instead as a self-selection mechanism.

A typical targeted rebate takes the following form: A manufacturer sets one's retailer a break point,  $q_0$  (of course, one can set several ones), for example, based on the amount of sales. The retailer's payment schedule,  $P(q)$ , is then:

$$P(q) = pq, \quad \text{if } q < q_0,$$

$$P(q) = p - q, \quad \text{if } q > q_0,$$

where  $p$  is the unit price,  $q$  is the quantity bought, and  $r > 0$  is the targeted rebate. The retailer chooses the optimal quantity by considering the relevant factors in the competitive environment: costs, demand, rivals' behavior, etc.

Economic theory has not described this type of rebate in sophisticated models. The economies of scale involved, however, generally mean that with an increase in quantity produced, producers face lower incremental costs. Therefore, both the seller and the buyer can share such benefits as cost reduction and thus achieve greater profits.

### Rebates as a Means of Competition

Some rebate systems are designed to affect competition among upstream firms. Sales promotion rebates aim to do precisely this, by attempting to exclude upstream competitors from one's own distribution channels. One can justify these types of rebate systems in regard to large expected gains in the future,<sup>2</sup> internalization of various externalities,<sup>3</sup> and so on.

These types of rebates establish fixed relationships between the channel-leader and the channel members. But what is important here is that such *ex post* closed channel structures do not always imply the existence of barriers to entry *ex ante*. Asymmetric outcomes can occur as the result of fair competition. In a dynamic context, however, the leader (incumbent) has a serious advantage over the new entrant.

This aspect of the rebate system, the foreclosure of channels through the use of rebates as tools of competition, is one to which we must pay serious attention. The construction of barriers to entry may increase the efficiency of the channel and even yield better results for consumers.

### Complexity and Ambiguity in Rebate Systems

Rebates are often blamed for the system's overall complexity. This complexity, however, arises mainly from the fact that most rebate systems are constructed alongside other rebate systems and/or other marketing schemes (e.g., current quotations, exclusive dealing, or return-of-unsold-goods policies). Yanagisawa [1966] has suggested that since a simple rebate system itself has only limited effects, complexity is probably due to these combinations of systems. Besides, long-term marketing strategies further contribute to complexity and ambiguity. Most of the distribution channels in Japan developed during Japan's high-speed growth period. Thus, each channel-leader (most of these are manufacturers) valuing future gains created a multiplex trade system to establish long-term cooperative relationships. A rebate system constituting such a complicated upper-level system would of necessity be quite complex.

### Conclusions

Many forms of rebates can be justified in rational terms. The complexity and the ambiguity of rebates can be thus explained as the incidental result of long-term relationships. However, the structure has recently begun to change. In the future, spot and single trades will increase in Japan's market, and this switch will likely transform the channel-management schemes from rebates to allowances.



### Notes

<sup>1</sup> Jeuland and Shugan (1983) give a plain explanation. A more formalized approach is found in Tirole (1988).

<sup>2</sup> If expected gains from trade in the future and the costs of switching partners are both sufficiently high, the channel leader will positively capture its members.

<sup>3</sup> For example, when manufacturers can take advantage of a rival's expenditures (e.g., advertising costs) at the retail level, they can force customers to purchase their products only. This is *exclusive dealing*.

## New Book

*Nichibei no fukushi kokka shisutemu: Nenkin, iryô, jûtaku, chiiki* (The Japanese and American Welfare State Systems: Pensions, Health Care, Housing, and Regional Development)

SHIBUYA Hiroshi, IMURA Shin'ya, and NAKAHAMA Takashi, eds.  
Nihon Keizai Hyôronsha, 1997. ISBN: 4-8188-0951-9

Featuring articles by Dwayne BANKS, Lance LIEBMAN, David GUSTAFSON, MOGI Yûki, MURAKAMI Kiyoshi, Gary DYMSKI, Dorene ISENBERG, OKADA Tetsutarô, Jane KNODELL, AKIYAMA Yoshinori, TATEIWA Toshikazu, and ITÔ Osamu.

# Distribution Policy:

## Market, Organization, and Coordination

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### MATSUSHIMA Shigeru

**DISTRIBUTION** functions to bind together consumption and production by allowing consumers access to things produced in another time and place. Of course, in examining policies related in a broad sense with distribution, we can — indeed, we should — think about certain classes of policies as being, broadly speaking, distribution policies. More narrowly, however, we can examine three categories of policies: those that deal with the field of transactions that bind together producers with consumers (market), those that create a framework for cooperation between different firms in the distribution industry (organization), and those that aim at solving problems of competition between various retailers (coordination).

#### 1. Market

- Commodity Exchange

The Commodity Law (1950) established the Commodity Exchange, a market for futures on private industry. Producers, distributors, processed goods manufacturers, etc., participate via the traders, the Exchange's members. The exchange has five principal functions: facilitating swift and certain high-volume transactions, setting fair leading price indicators, averaging prices, hedging against price fluctuations, and speculation. Across Japan there are currently 12 such marketplaces for commodities such as agricultural products, rubber, stable fibers, gold, and sugar.

The history of futures markets in Japan goes back at least 200 years. In the 18th century, a rice futures market was established in Osaka. Subsequently, under the Exchange Law of 1893, over 100 exchanges dealing in rice and wheat, securities, and specialized regional products were established in locations in every region throughout the country. With the exception of the securities exchanges, all of the exchanges were shut down during the command economy era of World War II. The current commodities exchange law, which continues to govern these markets today, was established in 1950, as part of the postwar return to a market economy.

- Wholesale Market

The wholesale market is regulated by the Wholesale Market Law (1971), which deals with foodstuffs such as fruit, vegetables, meat, seafood, and the like. Currently, two types of marketplaces act as bases for the distribution of foodstuffs in Japan: the large-scale "Central Wholesale Markets" (88 nationwide) and the smaller "Regional Wholesale Markets" (almost 1500 nationwide). The former type is opened by public regional organizations with the permission of the Minister of Agriculture, Forestry, and Fisheries, and the latter can be established by localities or branches of the agricultural or fishery associations with the permission of the prefectural governor. In



granting permission based on the Wholesale Market Law, the Minister of Agriculture, Forestry, and Fisheries is expected to ensure that the marketplaces operate according to the established rules, and also to promote the modernization of management and operations by participating members of private industry. Additionally, the central government provides financial assistance for the establishment of these wholesale markets..

Today's wholesale system bears a strong relationship to the past. In 1923, the Taisho government created the Central Wholesale Market Law, which proclaimed as its goals, "establishing facilities for distributing goods, harmonizing the supply of foodstuffs to urban areas, deciding fair prices, and improving transaction organization." Because this law was enacted in the wake of the post-WWI price inflation, wholesale markets were created alongside the establishment of public retail marketplaces.

## 2. Organization

### •The "Business Cooperative System" as a Framework for Organizing Industries

The Law on the Cooperative Association of Small-Medium Sized Enterprises was enacted in 1949 to establish the "Business Cooperative System," aimed at generating and facilitating cooperative behavior between firms, based on the spirit of mutual assistance. Groups with more than four medium or small firms can create a plan for cooperation in their operations, and after receiving the approval of the administrative authorities, establish a business cooperative. This creates a legal framework for businesses in fields with many small members to integrate operations, to create "shopping arcades" like Japan's many *shôtengae* shopping streets, to create voluntary chains, etc. Additionally, national, prefectural, and local governments in Japan can supply funds for long-term investment to support the operations of these cooperative undertakings.

### •Regional Organization

The city-level Chambers of Commerce and Industry and the town/village-level Commerce and Industry Societies in principle allow Japan's cities, towns, and villages to organize local firms on a city/regional basis. The purpose of this is to "improve comprehensively a region's commercial/industrial profile, and also to ensure that it helps to promote the general social welfare." In doing so, this system allows the local Conference Associations to present opinions with regard to Diet or bureaucratic initiatives, promotes the diffusion of technology and skills, and enacts management guidance for the firms. The last of these functions, in particular, is run with financial assistance from national or local governments, and it has



**MATSUSHIMA Shigeru is the Director of the Policy Planning Office, ion the Minister's Secretariat at the Ministry of International Trade and Industry.**

Ministry of International Trade and Industry  
Kasumigaseki 1-3-1, Chiyoda-ku  
Tokyo 100  
JAPAN



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Zenkoku Shôhin Torihikisho Rengôkai. *Zenshōren 30 nenshi* (The 30 Year History of Zenshōren). Unpublished, 1997.

had an important role in helping to modernize Japan's smaller retailers. In practical terms, the Chambers and Societies can be said to be carrying out a portion of the management of cities, towns, and villages.

### 3. Coordination

In the retail trade, where there is direct contact with the final consumers, even small and medium sized retail stores form business concentrations when many specialized stores are located together. The wide variety of goods that constitutes this business concentration attracts customers and plays a major role in affecting consumers' decisions of where to shop. However, in some cases, the establishment of large-scale department stores and shopping centers has had a major influence on the concentrated businesses' ability to attract customers and has led to changes in consumers' lines of movement. In addition, because the hours of business and the scheduled days of closure of large-scale retail stores have a significant effect on the neighboring stores, disputes develop with the local retailers concerning the construction of large-scale retail stores. Under the Large-Scale Retail Store Law of 1973, a coordination mechanism was established to resolve, on the basis of fixed procedures, disputes concerning the construction of large-scale retail stores. This mechanism makes use of the opinion development functions of the Chambers/Societies described above to coordinate issues such as floorspace, business hours, and scheduled closings.

These kinds of disputes within concentrated retail communities also occurred during the mid-1920s and 1930s when, during the process of building the railroads, attempts were made to establish department stores as core retail centers in front of new stations in regions surrounding the large cities. The Department Store Law of 1937, which was the antecedent of the Large Scale Retail Store Law, was established during this period. This filled the need for a coordination mechanism at a time when there were weak zoning regulations and no labor laws for regulating business closing hours. □

## New Book

*Shûdan shûshoku no jidai: kôdô seichô no ninaitetachi* (Young Labor in Japan's High Speed Growth: The Era of *Shûdan Shûshoku*)

by KASE Kazutoshi.

Tokyo: Aoki Shoten, 1997. ISBN 4-250-95062-X

*Shûdan shûshoku* refers to the mass employment of unskilled labor in the 1950s and 1960s, usually recent junior-high school graduates sent by train from the countryside to work in factories in urban areas.

# A Handspun Tale of Technological Change:

## Distribution Channels and the Meiji-Era Silk Industry

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### SASHINAMI Akiko

THE adoption of new technologies in industrial production has received a considerable amount of academic attention. This is particularly true in Japan's case. Most studies have gone beyond the simple labelling of Japan as a "copycat" nation or the imputing of a uniquely Japanese ability to absorb new technologies into existing systems. Nevertheless, there remains a tendency to explain in holistic terms, as in the exigencies of Japan's "latecomer" status or the need to emulate western technologies as rapidly as possible to compete in global markets from the Meiji period onwards. The case of Japan's silk industry — which was enormously important to the nation's economy in the prewar years — thus presents something of a mystery. Instead of a rapid switch to machine production or the widespread adoption of new technologies into the industry, it changed in fits and starts, and these resulted not from some general, inferable pressure regarding modernization, but rather from specific political and economic decisions regarding the shifts in markets and distribution systems during the Meiji Era.

The change in silk production technology is one of the more frequently cited examples of the adoption of western standards in Japanese manufacturing after the opening of Japan's ports in 1859. The introduction of European silk production laws in 1870, reflecting the need to produce standard high-quality silk, seemed to reinforce the notion that machine production would rapidly become the only game in town, and that the shift from hand-reeling to machines was a foregone conclusion, that it was simply a matter of time. In fact, the road to machine production was both longer and messier than this suggests.

### Making Silk

There are three stages necessary for producing silk from the cocoons of silkworms: boiling the cocoons; removing the fibers from the boiled cocoons, twisting them together and binding them within a frame; and then inspecting, classifying, and assembling the finished batches. In the early Meiji period, machine-production silk factories were capable of all three stages within the same factory, but in the hand-reeled method, the raw silk would be put together into large quantities and then would be inspected, in the last stage, much in the same way as the machine-produced silk. Japanese producers also began to use an improved hand-reeled method, which adopted some reeling parts from the new machines into the hand-reeling technology, and then relied on new inspection procedures that replaced the visual inspection with more precise assessments of the quality and thickness of the silk. The quality of the silk would of course depend in part on the quality of the silk cocoons as well as the technical mastery of the producer, and the need to make silk shipments conform as much as possible to some sort of average level of quality was something that machine and hand



**SASHINAMI Akiko is a  
Research Associate in the  
Institute of Social Science,  
University of Tokyo.**

Institute of Social Science  
University of Tokyo  
Hongo 7-3-1, Bunkyo-ku  
Tokyo 113  
JAPAN  
sasunami@shaken.iss.u-tokyo.ac.jp



methods had in common. Machine production had some advantages with regard to producing standard quality silk, but it did not become dominant over the improved hand-reeling until after 1905.<sup>1</sup>

This means that in theory, producers could choose from three ways of making silk in the early days of the Meiji Era: hand-reeled, machine-reeled, or improved hand-reeled. At first glance, the differences between regions in adopting machine production would seem to support the “emulation hypothesis” put forward by KIYOKAWA Yukihiro.<sup>2</sup> That is to say, regions like Gunma that had been using more advanced, cutting-edge technology prior to the introduction of machines for production should be less likely to adopt new technologies than relatively lagging regions like Nagano, which would be eager to adopt the newest machines for production.

Unlike other *han* in Japan’s feudal system, the local authorities in Gunma had practiced what amounted to early industrial policy. In other words, the political authorities had kept tabs on the latest technological developments, market information, and the like, and had shared tips with producers in order to ensure that local manufacturers were operating well. This essentially gave Gunma a technological and industrial edge over other regions, giving some weight to the emulation hypothesis that suggests something of a “leapfrogging” tendency of lagging regions to adopt new technologies.

Such a claim, however, makes a fundamental error in its understanding of what local decisionmakers were thinking in choosing machines or improved hand-reeling production. In fact, in 1870, the Meiji Government — which recognized a need to supply European countries with raw silk for industrial needs abroad — was somewhat undecided on what kind of production would be best, but settled on the idea of creating a test factory, the Tomioka Factory in Gunma Prefecture, that would create machine-reeled raw silk. Built with government money and managed as a model factory, this factory was successful and efficient in making relatively good silk at genuinely standard qualities. And so its accomplishments were trumpeted to local producers, especially visiting observers from other silk-producing regions like Nagano.

### **Machines and Machinations**

If Gunma Prefecture had Japan’s largest machine-production silk factory, why was it dominated by the improved hand-reeling production style, whereas relatively lagging Nagano Prefecture switched to machines? Put simply, the Gunma producers had better information regarding the changes in distribution channels and the needs of foreign buyers — the consumers overseas and the foreign middlemen in Yokohama. In earlier days, 400 grams of silk represented a normal quality for production and consumption, but after the Meiji Restoration and the subsequent changes in distribution (from

small buyers in Japan to large companies in Europe and North America), the ideal quantities for sale rather suddenly became hundreds of times larger.

Tomioka silk fetched a high price overseas not so much because it was relatively high-quality, but more because it was of standard quality that could be trusted; in the inspection phase, a few checks of a major batch was enough to ensure buyers that they were getting silk that would be broadly useful in making silk products abroad. This was particularly important as the foreign buyers in Yokohama and their customers overseas were not particularly well aware of the different producers in Japan, and could not simply ascertain quality from the manufacturer's name.

Recognizing the importance of standard quality, and having better access to information regarding the change in distribution channels than their competitors in Nagano, Gunma producers realized that the issue was not merely adopting the latest technology, but rather meeting the needs of the new market. Given limitations in funding, they knew that they were unable to create large factories. Nagano producers, adopting the Tomioka model, had begun to create their own factories, which were, due to financial limitations, small-scale and unable to do the sort of mass production that Tomioka accomplished. The Gunma producers thus recognized that with improved hand-reeling technologies — which were less costly than the total shift to machines — they could handle the standardization problem in the final stage of production: the assembly of small silk batches into larger batches. By keeping tabs on the quality of the silk worms, cocoons, and factories, the producers themselves were able to create large batches of relatively standard-quality raw silk, which exceeded the standardizable batches from Nagano's machine-reeling factories in quantity and almost certainly in quality as well.

In other words, the Gunma producers did not refuse to adopt machine production in the early decades of the Meiji Restoration because of a conservative desire to maintain contemporary practices; they did so because they had better information regarding the changes in distribution and in consumption than did the Nagano factories. That is to say, producers made calculated decisions about the adoption of new technologies, not simply because of their sense of an impending shift to machines, but because of their own understandings of economic incentives regarding proper marketing and production. Although we currently focus on distribution as affecting the current availability of goods and services in Japan and abroad, it also provides a welcome corrective to overly narrow understandings of technological and industrial change.



## Notes

<sup>1</sup> MINAMI Ryōshin and MAKINO Fumio. "Seishigyō ni okeru gijutsu sentaku" (Technological Choices in the Silk Industry) in MINAMI Ryōshin and KIYOKAWA Yukihiro, eds., *Nihon no kōgyōka to gijutsu hatten* (Japan's Industrialization and Technological Development). Tokyo: Tōyō keizai shimpōsha, 1987.

<sup>2</sup> KIYOKAWA Yukihiro. "Kindai kōjō seido no dōnyū to fukyū: tomioka seishijō no jirei o chūshin ni," (The Introduction and Spread of the Modern Factory System: Analyzing the case of the Tomioka Silk Factory), in *Nihon no keizai hatten to gijutsu fukyū* (Japan's Economic Development and the Spread of Technology). Tokyo: Tōyō keizai shimpōsha, 1996.



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### **Has Globalization Transformed the Japanese Broadcasting Industry?**

**Gregory W. Noble**

*Department of International Relations  
Research School of Pacific and Asian Studies  
Australian National University  
September 12, 1997*

**PROFESSOR** Noble discussed technological developments and the interests of Japanese and foreign investors as being factors in some of the changes we now see in regulatory and business practices in the Japanese broadcasting industry. Arguing against both “globalization” theorists who predict universal convergence on single industrial models, and against particularists who suggest that Japan will remain an outlier, Noble suggested that we are now seeing international “compression” rather than “convergence.” Practices may be becoming more alike than before, but national differences will remain salient.

### **Norms and Identity in the Politics of Japanese Security**

**Peter J. Katzenstein**

*Walter S. Carpenter Jr. Professor of  
International Affairs  
Department of Government  
Cornell University  
October 9, 1997*

**BUILDING** from the work in his most recent books, Professor Katzenstein provided an overview of new efforts by international security specialists to use sociological theory in their research. Katzenstein argued that dense institutional environments and the socially constructed nature of actor identities ought to be taken into account in the examination of security. To illustrate this, he looked at Japanese security policy, defining it in comprehensive terms that span issue areas (economic security, political security, etc.) and link external or international security policies with internal and domestic security politics.



## Making the Most of a Bad Reputation:

### Reassurance Strategies in Japan's Security Policy

#### Paul MIDFORD

IN 1990, on the cusp of the Cold War's end and Soviet collapse, then-commander of US Marines in Japan, Major General Henry C. Stackpole III, suggested that in future US troops should remain in Japan to prevent a return of Japanese militarism. According to Stackpole, "no one wants a rearmed, resurgent Japan. So we are a cap in the bottle, if you will."

Although his remarks earned him wrath in Japan and official censure in Washington, a modified form of Stackpole's "bottle logic" has found support from both wings of Japan's political mainstream. Speaking in October 1995, then Prime Minister Murayama Tomiichi stated in a speech to the Diet that "Some countries in Asia fear that Japan may turn into a military power, but as long as we have the security treaty and take the position that we won't become a military power, they need not worry." Similarly, in February 1992, while the Diet debated sending troops overseas for the first time since World War II to participate in UN Peacekeeping operations, Ozawa Ichiro, then Secretary General of the LDP, declared that "Asian countries are not concerned (over the dispatch of Self-Defense Forces overseas). What they are worried about is that Japan may break away from the Japan-U.S. alliance or the United Nations."

The perception of Japan as inherently aggressive becomes all the more remarkable when one considers Japan's actual postwar security strategy. Measured in terms of percentage of GNP spent on defense, proportion of the population in uniform, constitutional restrictions on the military and its use, restrictions on possessing offensive weaponry and even on the export of arms, Japan has been a pacifist outlier among the great powers. It is hard to think of another second-ranked economy in history that has maintained such a restricted defense. Thus, there is a tremendous gap between Japan's behavior and the way its disposition is perceived.

#### Attribution and Reputation

To be sure, some of the gap between behavior and perception can be explained with reference to Japan's power alone. As balance-of-power realists emphasize, a state's power makes it a threat to others, regardless of intentions. If this were always true, however, many states in East Asia, including perhaps even Korea, should support Japanese rearmament as a way of counterbalancing China and especially the regional military hegemon, the United States. The fact that Asian countries seem genuinely relieved that American aircraft carriers and marines substitute for Japanese ones suggests that perceptions of disposition play a significant role in international security.

We thus need to consider the dynamics of how people attribute the behavior of others. The social-psychological approach known as attribution theory suggests that an individual naturally perceives a direct correspondence



Paul MIDFORD is a PhD Candidate in the Department of Political Science at Columbia University, and an Associate Professor in the Faculty of Law at Kanazawa University.

Faculty of Law  
Kanazawa University  
Kakuma-machi, Kanazawa-shi  
Ishikawa-ken 920-1192  
JAPAN  
midford@kenroku.ipc.kanazawa-u.ac.jp  
pm11@columbia.edu



between the desirability (from the individual's subjective perspective) of an action and the actor's disposition. Unless the actor appears to be acting under severe situational constraints, its undesirable action is attributed to a malevolent disposition, whereas desirable action is attributed to a benevolent disposition. However, in what social-psychologists call the fundamental attribution error, people systematically underestimate the constraints of situation and overestimate the impact of intention. And because people are "cognitive misers," or tend to develop stable beliefs and rules of thumb to reduce cognitive burdens, many beliefs and perceptions are based on major or formative experiences. Preexisting beliefs about a state's disposition that result from previous experience are what I call state reputation.

These simplified postulates from attribution theory help explicate Japan's reputational problem. First, beliefs about Japan's disposition should vary according to wartime experience. Nations, ethnic groups and individuals that suffered the most from Japan's aggression and occupation should form stronger attributions about Japan's aggressive disposition than those with less grievous experiences. Second, because Japan ignored situational constraints during the Pacific War, expanded far beyond what was rational, and proved unwilling to retrench even when hopelessly overextended, attributions of aggressiveness should be especially strong. Another exacerbating factor is the exceptionally brutal way in which the Imperial Army went about conquering and ruling Asian lands.

Differences among Southeast Asian nations seem to confirm this. Thailand was the only Southeast Asian nation to escape Japanese armed attack, though its invitation to the Japanese Imperial Army was clearly coerced. Even so, it remains more enthusiastic about Japan's security role in the region than any other country, and recently sent shock waves through the rest of Southeast Asia in May 1990 by proposing joint Thai-Japanese naval exercises in the South China Sea. On the other hand, Singapore experienced one of the most brutal occupations. The country has been highly critical of joint Thai-Japanese naval exercises, and also expressed concern during Japan's 1992 debate over PKO participation. Senior statesman Lee Kuan Yew even warned that allowing Japan to send its military overseas in the context of UN PKO is like "giving whisky bonbons to an alcoholic." And in Malaysia, ethnic Chinese, who were treated rather more brutally than ethnic Malays, have been more anti-Japan than the government as a whole; Malay Prime Minister Mahathir has supported an expanded Japanese role in the region, symbolized in part by his well-known "Look East" policy.

### **Reputation and Japan's Defense Strategy**

Japanese elites, beginning with Yoshida, have been aware of Japan's



aggressive reputation and have attempted to reassure the outside world, thereby warding off anti-Japanese balancing. During the Cold War, Japan's reassurance strategy rested on three pillars: the voluntary acceptance of the US-Japan security alliance (the cap in the bottle) and the US-written "peace constitution" as containment structures designed to prevent its reemergence as a military power; the rejection of offensive weapons or power-project capabilities, while maintaining its military at a very low state of readiness with abnormally low stocks of ammunition; and a reassurance diplomacy toward Asia that consisted of promising to never again become a military power. This pledge formed the foundation of the 1977 Fukuda doctrine.

The end of the Cold War (with a relative decline in American power and the collapse of Soviet power) and Japan's growing regional weight have generated a major change in the balance of power in East Asia, which has forced Japan to expand its reassurance strategy in two fundamental ways. First, it has searched for expanded containment structures that permit it to play a larger role in security while limiting its ability to act unilaterally. The most obvious example is Japan's decision to begin participating in UN peacekeeping operations. More recently, Japan has been renegotiating the 1978 US-Japan Guidelines for Defense Cooperation to permit a larger (albeit a noncombat) role in regional security under the aegis of the US alliance. In essence, Japan is pursuing an "expanding bottle" strategy.

Second, although maintaining its Fukuda-doctrine pledge to never again become a military power, Japan is willing for the first time to openly discuss security with its Asian neighbors. This was a major purpose of the 1991 Nakayama initiative, by which Japan proposed a regional multilateral security forum (initially through the ASEAN Post Ministerial Conference) for the purpose of discussing security issues and promoting reassurance. Recently, Japan has also initiated bilateral security dialogues with several of its neighbors, including China, South Korea, and Russia.

It remains doubtful, however, that Japan could rapidly and significantly expand its security role, say in response to a crisis, without provoking a number of Asian states. Japanese elites appear to understand this, and conceive of reassurance as a gradual and long-run process. As the late Watanabe Michio observed during his tenure as Foreign Minister, "...there's clearly a long way to go before Japanese troops would be trusted in Southeast Asia in the same way as American troops...Japan would have to work hard for 20 or 30 years to build up the same level of trust as American troops now enjoy. I myself think we need to establish a track record. Some more history has to be put in place before we can be accepted as a truly peace loving nation."

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## Technology and Culture Revisited:

### Postwar Discussions of Quality and Automation

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Andrew ROBERTSON

**TECHNOLOGY** and culture are two words reluctantly used in the same sentence by students of Japan. A voluminous literature basing the postwar Japanese miracle on the eternal verities of Japanese culture — i.e., *shūdanshugi*, *gimu*, the list goes on and on — has rendered any discussion of the links between the two an extremely suspect undertaking. Rather than clarifying the relationship between technology and culture, these approaches have tended to posit culture as a stable, unchanging entity that provides the Japanese with a worldview splendidly suited to the appropriation of many different types of technology — from silk reeling in the Meiji period to late twentieth century information technology.

Put this way, the link seems questionable. What, after all, does silk have to do with computers? A more appropriate approach would be to study how the importation of new technologies interacts with the ways in which a people formulate their conceptions of themselves. In other words, we need to study culture as an entity as much in flux and as much in need of constant management as technology. Postwar production technology is an apt area for study because it provides a locus where concrete physical and technical problems interact with managerial fears, hopes, and dreams of national revival.

On December 6, 1957 at Waseda University's Ono Memorial Auditorium, the Japan Union of Scientists and Engineers organized a seminar on the use of automation and quality control in the chemical industry. The panelists included prominent academicians and industrial engineers on both sides of the quality-automation divide. Ostensibly designed to promote understanding between these factions in the postwar productivity movement, the proceedings began with bombast from both sides. Dr. Ishikawa Kaoru of the University of Tokyo started by somewhat precipitously asserting the priority of quality control. "I believe that QC is the goal; industrial engineering — and by this I include automatic control — is merely a method to attain this." He followed this with an extensive critique of automatic control methods, claiming that the use of feedback encouraged analysts to assume stable outputs from their systems without optimizing the inputs; feedback thus encouraged waste.

The subsequent speaker, Dr. Takahashi Yasundo, also of the University of Tokyo, disagreed. A leading light in the postwar importation of control engineering and a firm believer in the universal applicability of the concept of feedback, Takahashi vehemently objected to Ishikawa's characterization of automation as a tool. Point by point, he attacked Ishikawa's position, arguing that once one accepted the quite reasonable proposition that it is impossible to possess full knowledge of all inputs to a system such as a chemical factory, the only way to ensure uniform output quality was by the application of computer-based automatic control methods at critical junctures within the system. He did allow, however, that quality control

methods might be a “powerful weapon in making these systems practical.” At this point in the discussion, a person in the audience might have been forgiven for imagining that automation and quality control were competing and exclusionary descriptions of the world.

This argumentative tone stopped, however, with Professor Takahashi. The pragmatic words of Tomizawa Hiraku, a member of the board for the air instrument maker Tokyo Kūkō Keiki, best encapsulate the tenor of the subsequent discussion. Although a firm believer in the importance of quality control — during his tenure as the head of Shōwa Denkō’s planning section, the company had received one of the first corporate Deming Awards — Tomizawa argued that quality and automation were in fact theoretically identical embodiments of the feedback mechanism. Companies with production control problems could adopt either quality or automation solutions depending on their economic circumstances. If anything, the two approaches suffered from the same basic problem, how to choose the best instrumentation for the acquisition of data for analysis. Consequently, professional antagonisms ought to be discarded in favor of cooperation against a common enemy: poorly instrumented workplaces. The moderator concluded the discussion by explicitly reiterating Tomizawa’s thoughts on the importance both of instrumentation and of cooperation in reconciling the competing technologies of quality and automatic control.

One reading of this particular dénouement is that it represented the successful reassertion of the familiar Japanese values of pragmatism and cooperation in the resolution of a conflict engendered by the import of competing technologies from the West. Given the postwar history of instrumentation engineering in Japan, however, this is unpersuasive.

A similar panel discussion some six years earlier reveals something of the history that burdened these men. The year was 1951, and Japanese industry was in the grips of its first quality craze. The discussants — Professor Yamauchi Jirō of the University of Tokyo, Takahashi Shōichi of Yawata Steel, and Nakamoto Mamoru of the Japan Standards Association — agreed that, although quality control was clearly important to the economic rebirth of Japanese industry, in the midst of this frenzy basic issues of instrumentation might easily be forgotten. Only recently had any real progress been made in instrumenting the workplace in Japanese industry. Describing the resistance to instrumentation that he encountered in the steel industry during the war, Yamauchi complained, “Ten years ago, had you found a furnace without its optical temperature gauge, the foreman or his subordinate would have beaten you into submission with some hare-brained story.” Instead of manufacture based on rational and scientific instrumentation, production had relied on the intuition — *kan* — of skilled workers. Rather than being an issue of simple pragmatism, the adoption of instrumentation expressed management’s ability to overcome workplace resistance in an ongoing shift



**Andrew ROBERTSON is a PhD Candidate in the Department of the History of Science at Harvard University, and in 1997 has been a visiting researcher in the Institute of Social Science, University of Tokyo.**

Department of the History of Science  
Science Center 235  
Harvard University  
Cambridge, MA 02138  
USA  
aroberts@fas.harvard.edu



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in the basis of production from a qualitative understanding of the process to a quantitative and hence analyzable approach.

Similarly, cooperation was not historically a self-evident characteristic of Japanese industry at large. Nakamoto commented, "While studying standardization in America, I discovered that the Americans have a strong cooperative spirit. Of course, they compete, but they also help each other and try to work together to gain common ends. This is part of their national character and results from their democratic system. Japan lacks this cooperative approach." He continued by pointing out how in wartime Japan time and again industry and government had fragmented their efforts, sacrificing effectiveness to the maintenance of bureaucratic power and influence. As an antidote to this, Nakamoto presented an idealized vision of industrial America in which labor, management, manufacturers, and customers shared information, responded to each others' needs, and cooperated to the general benefit of all.

Thus, when the Waseda conference concluded with the somewhat ingenuous claim that the disciplines of quality and automation must work cooperatively, the unvoiced concern embedded within this proclamation was fear of return to wartime factionalism. Furthermore, the implicit model for cooperation in business was at least as much based upon an idealized vision of contemporary America as any set of native ideas. Similarly, Tomizawa's call to better instrumentation in the workplace concealed a history of confrontation between labor and management on a range of problems concerning skill, labor relations, and science in the workplace. The collapse of a confrontational labor movement in the early 1950s rendered moot any discussion of these problems. Indeed, given the proposition that cooperation was a good thing, any discussion of resistance to rationalization would have presented embarrassing contradictions.

Two of the cultural characteristics often ascribed to the Japanese and their use of technology — cooperativeness and pragmatism — possess important histories of their own. Only by studying these characteristics in terms of each other, of history, and of technology, can one fully comprehend the effects of the postwar American management invasion on Japanese society. The idealized view of American industrial society and the tools for its maintenance transformed the Japanese corporation and its employees' conceptions of their roles in that corporation. With time, however, these same corporations transformed these ideas and methods, adopting them to their own particular needs, and reappropriating them as Japanese. □

# Recent Publications in German on Japanese Politics, Society, and Economics

Compiled by Verena Blechinger. A more complete list will be sent to the SSJ-Forum email list.

## Politics

May, Bernhard (1996): *Japan in der Krise? Ökonomische und politische Umwälzungen in Japan als Herausforderung für die Triade* [Japan in crisis? Economic and political change in Japan as a challenge for trilateral relations], Bonn: Forschungsinstitut der Deutschen Gesellschaft für Auswärtige Politik, 162 pages.

Schmidt, Petra (1996): *Die Todesstrafe in Japan* [The death penalty in Japan], Hamburg: Veröffentlichung der Deutsch-Japanischen Juristenvereinigung, 807 pages.

Heberer, Thomas and Kerstin Katharina Vogel (eds.) (1997): *Frauenlos!? Politische Partizipation von Frauen in Ostasien* [Women-less?! Political participation of women in East Asia], Hamburg: Lit, 259 pages.

## Economy

Dirks, Daniel (1995): *Japanisches Management in internationalen Unternehmen. Methodik interkultureller Organisation* [Japanese management in international enterprises. Methods of intercultural organization]. Wiesbaden: Gabler, 310 pages.

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Lenz, Ilse and Michiko Mae (eds.) (1997): *Getrennte Welten, gemeinsame Moderne? Geschlechterverhältnisse in Japan* [Separate worlds, common modernity? Gender relations in Japan], Opladen: Leske und Budrich, 317 pages.

Dr. Verena Blechinger is a Research Associate at the German Institute for Japanese Studies, a research institute located in Tokyo.

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## Under Pressure

Leonard J. SCHOPPA,

*Bargaining with Japan: What American Pressure Can and Cannot Do.* 406 pp.

New York: Columbia University Press, 1997. ISBN 0-213-10591-6

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### OBI Michiyo

A number of studies on US-Japan relations suggest that *gaiatsu* (foreign pressure, but usually referring to American pressure) plays an important role in Japanese politics. In this new book, Leonard Schoppa points out that most of these works make generalizations while paying little attention to the issues of when *gaiatsu* is likely to yield a positive response and little backlash, or how *gaiatsu* produces policy outcomes which were previously blocked due to domestic political constraints. Schoppa sets out to clarify the proper way to use *gaiatsu* by identifying the factors that determine when it is likely to be effective in improving the terms of bargains reached between the US and Japan.

The author devotes the first half of the book to a static, theoretical analysis of the political processes that allow *gaiatsu* to work effectively in US-Japan negotiations. Based on Robert Putnam's two-level (international and domestic bargaining) game approach, Schoppa focuses on domestic politics as an important arena for contests involving foreign pressure. His hypothesis is that the success of negotiation strategies in a two-level game depends critically on how they "reverberate" within Japanese domestic politics. Schoppa then applies the hypothesis to the SII (Structural Impediments Initiative) talks, the outcomes of which vary among five issues.

#### Under Pressure We're Cracking?

In three issues (public investment, land policy and the Large Store Law) the American government succeeded in gaining effective concessions from the Japanese government, while in the other two issues (antitrust law and keiretsu relations) *gaiatsu* was ineffective. Using Putnam's terms as well as some he has added to the approach, Schoppa shows that some types of strategy, such as "participation expansion" (increasing the number of policy actors) and "alternative specification" (externally defining the range of choice) produced more concessions, on the Japanese side, than those like "threats" and "target-nation linkage."

In these case studies, *gaiatsu's* effectiveness is ultimately determined not by the strength and/or toughness of the threat, but by Japanese domestic politics. If *gaiatsu* is going to reverberate in Japanese politics, it requires political actors or potential actors on the Japanese side who support the demands by the US government. *Gaiatsu* thus works only if those strategies are used by Japanese political actors who wish to alter policies related to US-Japan bilateral talks by accommodating to U.S. demands. Accordingly, if there are no Japanese actors who intend to use *gaiatsu* for policy change, it will not yield preferable results for the U. government.

In the latter half of the book, Schoppa analyzes the dynamic changes in *gaiatsu* by examining factors which differentiated the results between SII talks under the Bush administration and the Framework talks under the Clinton administration. According to Schoppa, during the Framework talks,

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the US government failed to receive any concessions from the Japanese side even though it applied tough threats, such as a 100% retaliation tax targeted on Japanese luxury automobiles in the 1995 automobile talks. According to Schoppa, three “contextual” factors changed the constraints that determined the effectiveness of *gaiatsu* by altering the way that pressure reverberated, leading to different outcomes for the two bilateral talks: the end of the Cold War, the constitution of WTO, and the end of LDP dominance in the Diet.

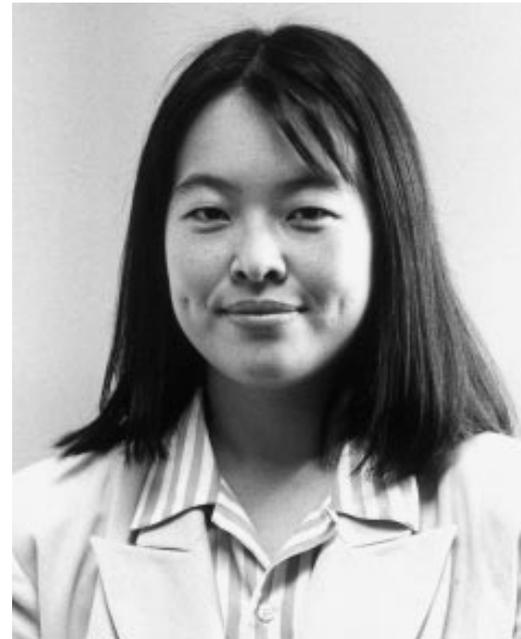
For example, with the end of the Cold War and the concomitant de-linking of the US and Japan as major allies in a bipolar system, the meaning of American threats has changed for Japan, so that US ultimatums simply do not have the same influence they used to. In addition, the establishment of the WTO gives the Japanese government opportunities to appeal to a dispute settlement panel if it is threatened with unilateral sanctions. And as an internal factor, political reforms and changes in the Diet have given Japanese enough confidence in their ability to generate policy change internally without *gaiatsu*.

This last aspect is particularly important because of the emphasis that Schoppa gives to the structure of Japanese politics as a key factor that has made *gaiatsu* effective. In the era of LDP dominance in the Diet, Japanese domestic politics was characterized by a “subgovernment” system comprised largely by *zoku* (policy tribes), LDP Diet members specializing in issue areas like agriculture, construction or small business. Under this system, it was generally difficult to make policy changes that ran against the vested interests of the *zoku* members, and *gaiatsu* served as effective leverage to force the *zoku* to accept policy changes.

### Pressure on People, People in States

The book’s key strength lies in its careful application of Putnam’s relatively loose schema to an actual series of policy cases, showing systematically why foreign pressure sometimes works and sometimes does not. And Schoppa’s conclusion, that in order to make negotiating strategies effective, policymakers need to give careful consideration toward the domestic politics of their counterpart, seems both reasonable and more than adequately supported by his evidence.

There is something almost defeatist in this argument, however. Schoppa practically throws down a gauntlet (and this is a big study, and deserves a grand subtitle) by asking “what *gaiatsu* can and cannot do?” Ultimately, it is not clear how US policymakers can make *gaiatsu* effective in the absence of sympathetic Japanese policymakers, which is not entirely encouraging, particularly in trade disputes that seem relatively intractable. Indeed, the book nearly suggests that it is more appropriate to study *gaiatsu* as a dependent variable rather than an independent one (as a neorealist or “revisionist” study might), or at least to see the effects of *gaiatsu* as being somewhat removed from the initial choices of strategy and goals.



**OBI Michiyo is a  
PhD Candidate in the  
Department International  
Political Economy at the  
University of Tsukuba.**

Department of International Political  
Economy  
University of Tsukuba  
Tennodai 1-1-1  
Tsukuba-shi, Ibaraki-ken 305  
JAPAN  
merry@gsipe.kokusai.tsukuba.ac.jp



Additionally, Schoppa muddies the waters a bit when he admirably tries to apply the theory briefly to some other countries; regrettably, while this effort at broader comparative analysis is ambitious and clever, it lacks the analytical clarity of the US-Japan cases. Furthermore, the static (issue-specific) and dynamic (contextual) analyses each work well on their own, but the author does not systematically cross-check the effects of contextual factors on issue-specific ones. Testing them together might have told us something more about the effect of context on some of these issue areas.

Even so, these weaknesses do not seriously undermine the quality or importance of the study. It seeks to be of theoretical relevance by working with and expanding on Robert Putnam's famous but insufficiently tested analytical framework. It provides an outstanding analysis of the peculiarities of US-Japan trade talks and forms a valuable counterweight to revisionists' insistence on forcing the Japanese government to go along with a "results-oriented" trade policy or to commit to specific and quantifiable results. And finally, the book is beautifully organized and written, and will serve as a reminder of how to communicate complicated arguments and analyses with the clarity required for a book to be of genuine policy relevance. □

## New Issue of The Journal of Social Science

THE JOURNAL OF SOCIAL SCIENCE (*Shakai Kagaku Kenkyū*) XLIX:1 September 1997 Published by the Institute of Social Science, University of Tokyo

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Empirical Analysis of the Multiple Currency System (II): Foreign Exchange Rate Arrangements of Individual Economies of the World  
..... AKIYAMA Shigeru and KAWAI Masahiro



# Ministries Centered Between Zero-and-Sum

Yumiko MIKANAGI,

*Japan's Trade Policy: Action or Reaction?*

London: Routledge, 1996. ISBN 0-415-13735-7

## MIYAOKA Isao

*JAPAN'S Trade Policy* analyzes the domestic conditions under which foreign pressure can have a significant impact on trade liberalization in Japan, by conducting case studies of the US-Japan trade negotiations known as the Market-Oriented Sector-Selective (MOSS) talks in 1985-1986. This focus on domestic factors is based on Mikanagi's finding that "the amount of pressure applied to the Japanese government and the degree of achievement do not correlate" (p. 52). In this work, she rejects the debates about elitism, pluralism, and corporatism, which attempts to characterize the whole Japanese political system in some generic way, and employs a "ministry-centered approach" based on the proposition that each ministry is different in terms of its objectives, its level of autonomy, and the scope of its policy instruments. All of these factors affect a ministry's capacity to respond to foreign pressure.

Mikanagi argues, for instance, that if there is interministerial conflict, a ministry is less able to respond to pressure, since its autonomy is reduced by other ministries' intervention (p. 28). In addition, she regards the types of relationships between a ministry and the private sector as constituting an important factor in Japan's responsiveness to foreign pressure. This approach offsets the weakness of the international system-level explanation by paying more attention to domestic factors, including the private sector, and also avoids oversimplification of a macro approach to the Japanese policymaking process. Mikanagi's contribution thus helps to correct some of the overly general studies that suggest, for example, that "foreign countries should pressure Japan in *this* way," or "*this* is how the Japanese government works, always, under all circumstances."

Nevertheless, her approach suffers from a few limitations. First, Mikanagi puts a ministry's possible relationships with the private sector into four categories: post-promotive, promotive, restructuring, and regulatory, and argues that the category determines the ministry's capacity to make and implement economic policies. This typology, however, is too simplistic to analyze the details of the relationships or even to specify the mechanisms through which any relationship operates; Mikanagi herself admits that "the proximity of relationship between ministries and the private sector varies from sector to sector and ministry to ministry" (p. 93).

Second, and more important, Mikanagi's work considers the power relationships between a ministry and the private sector as a zero-sum game. This seems to be based on her implicit assumption that there is always a conflict of interest between a ministry and the private sector; i.e., that the former favors trade liberalization and the latter favors protection.

Finally, political intervention lies outside of Mikanagi's framework, which mainly deals with issues that are not highly politicized. This is why she treats the highly politicized case of forest products as something of an outlier. In fact, the analysis of political intervention might even strengthen the analysis, since there is no incompatibility between a ministry-centered framework



**MIYAOKA Isao is Institute Researcher at the Institute of Social Science, University of Tokyo, and PhD candidate at Oxford University.**

Institute of Social Science  
University of Tokyo  
Hongo 7-3-1, Bunkyo-ku  
Tokyo 113  
JAPAN  
miyaoka@iss.u-tokyo.ac.jp



## Ministries Centered Between Zero-and Sum *continued*

and a view of political intervention as a factor limiting the autonomy of the ministry in question.

It might be possible to improve Mikanagi's approach by introducing a power community approach like the one taken in Smith's work on networks in Britain and the US.<sup>1</sup> This approach goes beyond Mikanagi's typology and examines each relationship between a ministry and the private sector more closely within the structural and historical context of the policymaking process. Second, it allows for the possibility of a positive-sum game; as Smith points out, "by working together, a group and a state agency can increase each other's autonomy in relation to other parts of the state" (p. 54). This seems particularly true where both actors cooperate to resist external pressure. Finally, it is an approach that can deal with political intervention as well.



<sup>1</sup>Martin J. Smith. *Pressure, Power and Policy: State Autonomy and Policy Networks in Britain and the United States* (Hemel Hempstead: Harvester Wheatsheaf, 1993).

### Colloquium Announcement

#### **Abe Fellowship Program Winter Colloquium**

4:00-6:00PM, Friday, January 9th, 1998

Center for Global Partnership, The Japan Foundation  
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#### **United Nations Reform: The Role of Intellectuals**

KONO Tsutomu

*Abe Fellow*

*Research Associate*

*Ralph Bunche Institute on the United Nations*

*City University of New York*

Moderator: INOBUCHI Takashi, University of Tokyo

The presentation will be in Japanese. Simultaneous interpretation may be available.

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## SSJ-FORUM TAKES THE STEVE REED CHALLENGE

In the August issue of *Social Science Japan*, Professor Stephen Reed challenged readers to dispute his predictions for the next Japanese election. A number of subscribers to SSJ-Forum, the moderated e-mail discussion list run by the Institute of Social Science, took up the challenge. A selection of quotes from posts on the subject follows.

- TURNOUT: If the next election is held under the same electoral system, turnout will go up.

“I think Reed is wrong about turnout. I disagree with his reasoning about *koenkai* and take his bet. In last October’s run, I tried to get some reactions and make predictions about the shape of the election. As I gathered information on the likely turnout, it seemed to me that sixty percent would be the threshold, and turnout was only 59.6%. Again, the Tokyo election turnout of 40% shows even new lows are possible.”

*Stephen J. Anderson*, Center for Global Communications

- NUMBER OF CANDIDATES: If the electoral system is not changed, the effective number of candidates in most districts will move towards two.

“We disagree [with Steve] and predict that, if the electoral system is not changed, the effective number of candidates in competitive districts (we’re excluding ones where incumbents gain a firm hold on the seat) will remain well above two. Note that we are not saying, here, that Japan will retain multiple parties because the PR portion of the rules allow small parties to survive by winning PR seats. We are predicting that we will see multi-party competition even in the single member districts, leading to three way races where winners might continue to win seats with 40% or less of the votes.”

*Len Schoppa and Karen Cox*, University of Virginia

- TWO-PARTY SYSTEM: Japan will not have a two-party system by the time of the next election.

“Steve was being very conservative when he predicted that Japan will not have a two-party system by the time of the next election! The PR portion of the ballot gives the smaller parties a chance of independent survival and therefore makes it hard for the opposition to coalesce into a large, unified party capable of challenging the LDP. In the meantime, the compromises that Ozawa made to keep the Komeito’s loyalty made the Shinshinto’s platform into an unrecognizable soup. Not surprisingly, many politicians have migrated back to the LDP, signaling a shift in their predictions about the viability of the Shinshinto as the second large party. It will take some big issue to galvanize the Japanese public before politicians sort themselves into groups that make ideological — or even programmatic — sense.”

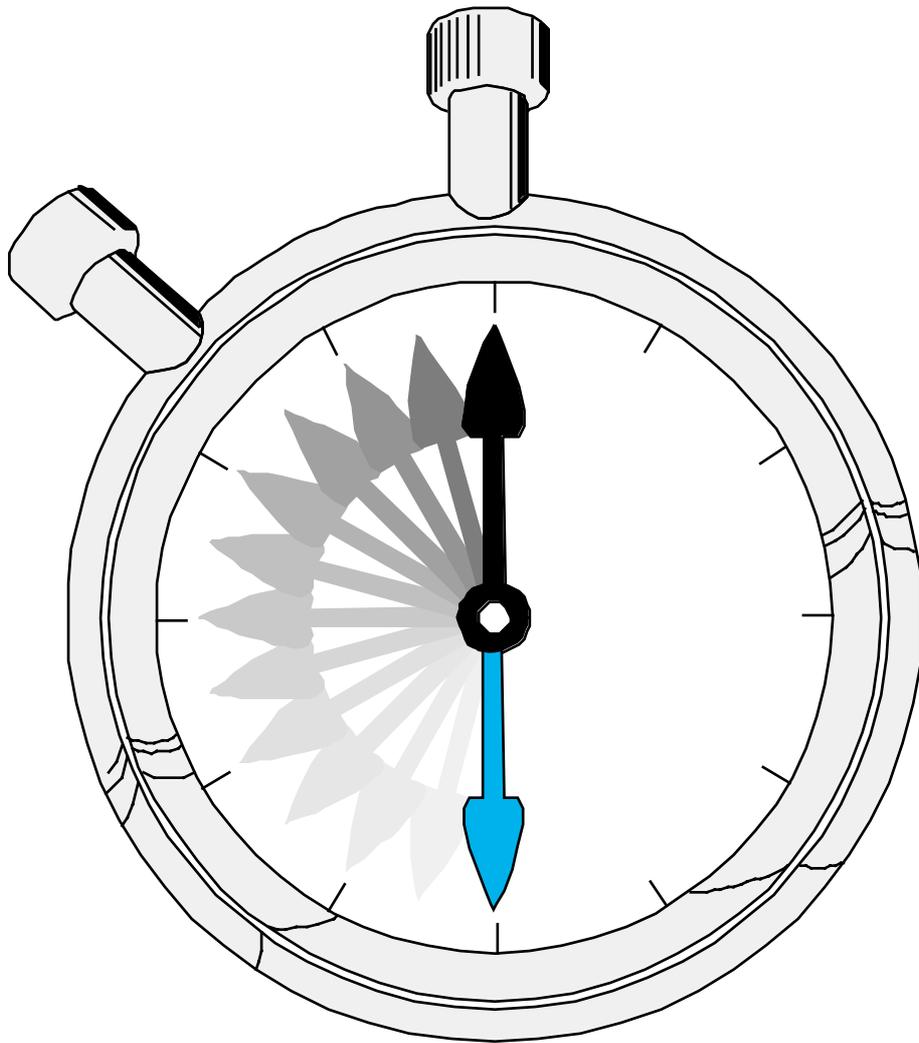
*Frances Rosenbluth*, Yale University

“I have no confidence in predicting any of this, except to add one point. The number of parties is likely to be ‘primarily’ a function of electoral systems but also partly a function of legislative dynamics. If the PR section of the new system facilitates the survival of small parties AND if the electoral forecast remains uncertain and no majority party is likely to emerge after the election, then there are greater incentives at least for a handful of politicians to depart from the existing parties right before the next election in order to hold the key ‘bargaining’ power in the legislative process, i.e. the post-election coalition-building process.”

*Masaru Kohno*, University of British Columbia

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